



Disruptive Innovation Strategy: How to Stay Ahead of Market Shifts

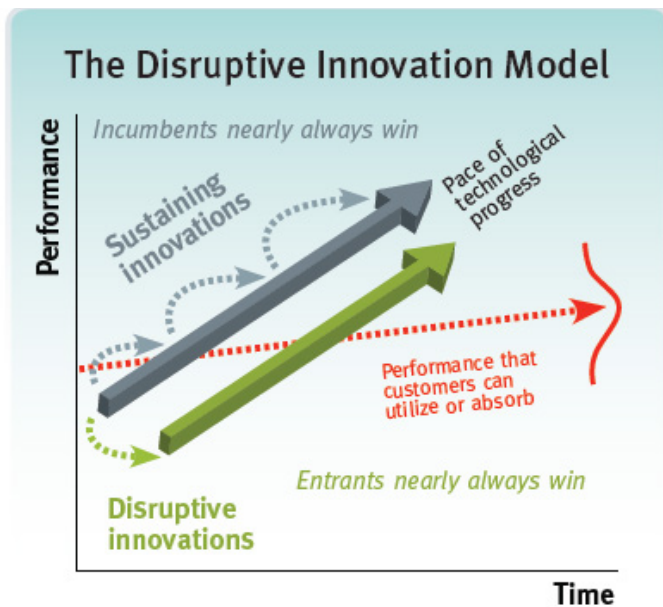
What drives companies? When it comes to **innovation**, the first place many focus is on existing customers – improving products and services to better meet their needs. This is known as sustaining innovation: incremental or breakthrough advances that make offerings higher performing, more reliable, or more efficient, usually for a company’s most profitable customers. Managers are rewarded for allocating resources to these opportunities because they promise the strongest returns. But the same logic that strengthens a core business can obscure opportunities that look less capable or less attractive at the start.

This opens the door to disruptive innovation, which is when a simpler, cheaper solution enters at the low end of a market, gradually improving until it displaces established players. It begins when a new entrant, often a startup, addresses a customer need that falls outside the priorities of the incumbent. At first, these offerings don’t meet traditional performance standards, but they solve meaningful

problems for customers the incumbent isn’t set up to serve. Some entrants gain traction by appealing to people who no longer find existing solutions worth the cost or complexity. Others break through by helping customers approach a problem in a different way.

As disruptive innovations improve, they expand into more demanding customer segments, raising the bar along the way. Over time, solutions that once seemed inferior meet the needs of mainstream users. Meanwhile, incumbents, still focused on their core business and most profitable customers, lose ground in markets they once dominated, ceding growth to challengers they underestimated. Consider the origins of Amazon. It began by using online channels to reach customers underserved by physical retail, starting with books. From there, it transformed broader consumer markets by making convenience and seamless buying the new standard.

Netflix followed a similar path. Rather than compete directly with Blockbuster, it targeted frustrated



consumers who disliked the hassle of visiting video stores and paying late fees – and who didn't mind losing the instant gratification of renting at a video store. Gradually, its DVD-by-mail service removed barriers to home entertainment and evolved into a streaming platform that disrupted cable television and transformed how people watch content.

Today, **artificial intelligence** is driving a new wave of disruption. AI-native companies are scaling quickly by automating core functions and rethinking how work gets done, pressuring incumbents to adapt before they're outpaced. For instance, tools like ChatGPT deliver complete answers, shifting the user experience from searching to solving. That change threatens incumbents like Google, which built their business around link-based discovery. As customer expectations shift, so does the basis of competition.

As Innosight cofounder Clayton Christensen chronicled in *The Innovator's Dilemma*, the seminal book on disruptive innovation, many leading firms fail to recognize or respond effectively to this reality. However, companies such as Amazon, Apple, Microsoft, Johnson & Johnson, and P&G have

embraced growth through disruptive innovation and profited from it at various points in their histories.

By creating new markets or reshaping existing ones with more affordable and accessible offerings for customers ignored by competitors, these pioneers extended their core businesses with disruptive growth.

Why the Business Model Matters

When industries face disruption, success rarely comes from a breakthrough technology alone. Defending against new entrants usually requires **business model innovation**, meaning rethinking the fundamentals of how a business works: the customer value proposition, the profit formula, key resources, and key processes.

Disruption reframes the rules of competition by shifting how value is defined and delivered. Entrants succeed by creating models that incumbents are reluctant to pursue because they are tied to cost structures and wary of cannibalizing existing profits.

Apple's iPod strategy shows how this works. The device succeeded not because it was technically superior, but because it was paired with iTunes. Apple sold music at little to no margin to drive sales of the iPod, a reversal of the traditional blades-and-razor model. This business model defined value in a new way for consumers while giving Apple a profitable growth engine.

Canva offers a more recent example. Adobe's business model has relied on selling expensive, professional-grade design software to skilled users. Canva entered with a different model: a freemium platform that offers free access to a vast library of templates and design tools. This lowered the barrier to entry and attracted a broad audience. Revenue came through premium subscriptions and digital asset sales. By making design simple for non-

experts, Canva tapped into nonconsumption and forced Adobe to adapt its approach.

Other Cases of Disruptive Innovation

Uber vs. Taxis

Didn't compete on price or luxury at first – just made hailing a ride 10x easier, from your phone.

Airbnb vs. Hotels

Turned underused personal property into a global accommodation network. Started with couch-surfers, disrupted Marriott.

Toyota vs. Detroit Automakers

Entered U.S. market with cheap, reliable compacts. Incumbents ignored them – until they couldn't.

Southwest Airlines vs. Legacy Carriers

Focused on point-to-point, short-haul, cheap, no-frills flights – ignored by big carriers chasing business class.

Keeping Innovation in Balance

Although disruption is the key to new growth, companies should never ignore their core offerings. Sustaining innovation keeps the core competitive and provides the profits that fund future investment. But by devoting some percentage of resources to disruptive strategies, companies can build a foundation of growth for the future before someone else inevitably does.

These disruptive bets often look less attractive at first, with lower margins and customers outside the core. Yet they create growth that complements

sustaining innovation. Apple provides an example of balance: it continued improving its laptop and other computer offerings while also investing in the iPod, which opened new markets and reshaped consumer behavior. Companies that manage both strengthen today's business while creating tomorrow's.

Identifying Areas of New Growth: Targeting Jobs to Be Done

To identify customers who will welcome disruptive innovations, companies should use a **jobs-to-be-done** approach. The premise is simple: Customers don't really buy products. They "hire" them to do a job. Instead of asking what products customers want to buy, ask what fundamental problems customers hope to address.

While traditional market research segments by product, size, demographics, or some other easily applied category, the jobs-to-be-done approach taps into what really drives customer behavior. By identifying what jobs people really care about, companies develop more convenient, reliable, or affordable ways for customers to solve important problems, disrupting existing markets and creating new ones that would otherwise have remained invisible.

Netflix illustrates the power of this approach. The company didn't frame its opportunity as mailing DVDs more efficiently. It focused on the job people wanted done: convenient entertainment at home. By removing late fees and store visits, Netflix solved that job better than video rental chains and eventually transformed how people watch content through streaming.

Case Study: Amazon Web Services

Amazon Web Services is an example of a disruption that transformed an existing industry with a cheaper, simpler solution. When AWS launched in the mid-2000s, most companies still bought

and maintained their own servers, an expensive, complex undertaking that favored large enterprises with deep IT budgets.

AWS offered something different: basic computing and storage services delivered over the internet. Startups and small businesses that couldn't afford enterprise infrastructure were the first to adopt it. These early customers didn't need the scale or performance of on-premise systems. They just needed affordable access to reliable computing.

Established providers didn't see AWS as a threat. They focused on high-margin clients and dismissed pay-as-you-go cloud as too limited for serious business needs. But over time, AWS expanded its capabilities and moved upmarket. It now powers major corporations and fast-scaling enterprises, reshaping how organizations access and manage technology.

Emergent Strategy for Disruptive Opportunities

After companies use a jobs-to-be-done lens to identify new growth opportunities, they have a choice. They can follow a deliberate strategy: setting a goal, defining a set of steps to reach that goal, and then methodically acting on each step. This highly conscious and typically quite analytical process involves detailed market research to determine customer needs.

But there's an alternative: emergent strategy. Companies that take this approach try to retain flexibility and gather feedback from the marketplace on what works and what doesn't. They change their strategies on the fly to adapt to new information that emerges from the marketplace.

Emergent strategies work in highly uncertain situations, such as those that surround the pursuit of disruptive innovations. The rise of AI is amplifying

that uncertainty by making it harder to anticipate how technologies will evolve and how customers will respond. In these situations, managers tend to encounter unanticipated results and problems that business planners didn't foresee. Adhering to a rigorously deliberate strategy in such fluid circumstances can lead companies to ignore market signals and fail to adapt, sticking to a strategy that no longer works.



Emergent strategy is grounded in a few key principles. The work begins with learning. Plans should allow for adjustment from the start. That requires gathering information that increases confidence in a chosen direction. Early actions should be aimed at testing key assumptions to reduce risk and improve the efficiency of each decision. As the work progresses, leaders should revisit the strategy and revise it based on what they've learned.

Some assumptions will fade in importance. Others will emerge and require attention. When the strategy becomes less attractive than it once appeared, leaders should shape it in a direction that improves the odds of success. If a path no longer holds value, it should be shut down. To support this kind of adaptation, the work should be paced by milestones that provide structure and focus throughout the process.

ABOUT INNOSIGHT

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